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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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AUG 22 1994

In the matter of )  
PACIFIC BELL )  
Petition for Rulemaking to )  
Amend Section 69.106 of )  
the Commission's Rules )

8496  
RM- 8946  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

AT&T COMMENTS

Pursuant to the Commission's July 21, 1994  
Public Notice (Report No. 2022), AT&T Corp. ("AT&T")  
hereby comments on the above captioned request by Pacific  
Bell that the Commission initiate a rulemaking to modify  
the currently prescribed Part 69 rate structure by  
establishing a per-message call set up rate element in  
addition to existing per-minute access charges.

The disaggregation of local switching rates  
that Pacific Bell proposes would be a step in the  
direction of more cost-based access charges, and AT&T  
therefore in principle supports the limited relief  
requested in the petition. Nevertheless, the requested  
rulemaking stops well short of implementing the  
fundamental reform of the access charge plan that is  
widely recognized to be necessary, and the Commission  
must proceed expeditiously to begin such a proceeding.  
Moreover, Pacific Bell fails to acknowledge that, because

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of the interrelated nature of the access charge scheme, the piecemeal change proposed in its rulemaking petition would require other significant revisions to the Commission's rules -- most particularly, an adjustment to the price cap formula for the traffic sensitive basket. Finally, in assessing the merits of Pacific Bell's proposal the Commission should take appropriate steps to ameliorate the impact of a call set up charge on 800 service providers and their customers.

Pacific Bell states (Pet., pp. 2-3) that its local switching rates have been developed based on the average holding time of calls, under the Part 69 rate structure that prescribes recovery of such charges on a per-minute of use basis.<sup>1</sup> The petition also states (id.) that under this rate design, Pacific Bell generally fails to recover fully the costs of calls which are below that carrier's average holding time, while calls in excess of the average duration over recover their costs.

Additionally, Pacific Bell asserts (pp. 3-5) that, as the result of marketplace developments over the past decade, the proportion of short duration calls with

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<sup>1</sup> Section 69.106 provides that:

"charges that are expressed in dollars and cents per access minute of use shall be assessed upon all interexchange carriers that use local exchange switching facilities for the provision of interstate or foreign service."

holding times of less than a minute (particularly for credit card validation and financial services applications) has increased dramatically from the level at the time the Commission's Part 69 rate structure was adopted. Pacific Bell also claims (p. 6) that the call set up costs of short duration calls considerably exceed the one minute local switching charge established through its average ratesetting process.<sup>2</sup>

In response to the "proliferation of these new types of short calls" (Pet., p. 6), Pacific Bell proposes that the Commission adopt separate call set up and duration rate elements for local switching charges. The petition states (p. 7) that such a rate structure will further the Commission's policy of promoting cost-causative recovery of access rates.

Like Pacific Bell, AT&T supports revision of the current Part 69 rate structure to promote cost-based access rates. Indeed, AT&T has previously urged the Commission to move decisively to implement fundamental reform of its access charge rules by fully unbundling those rates.<sup>3</sup> Unfortunately, Pacific Bell's petition

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<sup>2</sup> By the same token, Pacific Bell contends (Pet., p. 6) that its per-minute usage rate is about three times the cost of maintaining a call in place after call set up.

<sup>3</sup> See, e.g., AT&T Comments filed February 1, 1993 in Transport Rate Structure and Pricing, CC Docket No. 91-213, pp. 5-6; AT&T Reply Comments filed March 19, 1993 in id., pp. 2-3.

does not acknowledge that a truly cost-based local switching rate structure, one that allows for the recovery of costs from the appropriate cost causers, would establish a separate, flat-rated termination charge assessed on end users to recover the significant non-traffic sensitive ("NTS") costs associated with local switching that are currently recovered on a totally usage-sensitive basis from interexchange carriers. Thus, the disaggregation of local switching suggested by Pacific Bell is itself incomplete.

Further, by focusing exclusively on a change in Section 69.106, Pacific Bell ignores the many complex linkages among the Commission's access charge mechanisms. Changes in one aspect of the access charge plan may often have important ramifications for other portions of the access rules, so that careful scrutiny by the Commission of all revisions is imperative. This fact is underscored in the present case, because the call set up charge advocated by Pacific Bell would seriously affect the Commission's price cap regulation of the LECs' traffic sensitive rates.

Specifically, available industry data indicate that in recent years the growth in access messages has significantly exceeded the growth rate in access

minutes.<sup>4</sup> Thus, under Pacific Bell's proposed rate structure, price cap LECs can achieve higher revenues simply by charging for access based on their message volumes than by billing based on minutes of use.<sup>5</sup> To compensate for the revenue inflating effect of the revised rate structure, the Commission would be required to increase the LECs' productivity factor (the "X"

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<sup>4</sup> As shown in Appendix 1, since 1991 the annual growth in originating access "messages" (to which the call set up charge would apply) for the RBOCs as a whole has averaged 7.6 percent, while growth in those carriers' minute volumes averaged 5.8 percent. The disparity in Pacific Bell's growth rates for these two measures of access use was even more dramatic; during this period, its originating access messages increased by 10.3 percent annually, while its access minutes grew at an annual rate of 8.1 percent. This disparity would become even more pronounced if the call set up charge were imposed at both the originating and terminating ends of a call, because terminating messages are growing faster than originating messages

<sup>5</sup> For example, assume that there is no change in the LECs' PCIs from one year to the next, while minutes grow by 8 percent and messages by 10 percent. With no change in these carriers' tariffed rates, and with no increase in service quality or efficiency, the LECs' revenue growth will be equal to the growth in billed traffic volumes. (Thus, revenues from per-minute charges would grow by 8 percent, while revenues from billed messages under the call set up charge will grow by 10 percent.) If the call set up charge and per minute charge are set in proportion to the costs reported by Pacific Bell (1.621 cents and .343 cents, respectively), and the average length of a call is 3.86 minutes, the call set up charge will recover about 55 percent of local switching revenues. With that proportion of local switching revenue growing at 10 percent annually, the annual growth in total switching revenues will be increased from 8 percent to 9.1 percent. Since current annual LEC local switching revenues are estimated at approximately \$4 billion, this change in the access structure therefore results in an additional \$44 million annual growth in revenue.

variable in the price cap equation) for the traffic sensitive basket by approximately one percent to preclude a de facto rate increase and an unwarranted windfall to those carriers. Thus, the Commission cannot properly consider Pacific Bell's requested rate structure change in a vacuum, but should simultaneously address the related effects of that revision upon other access rules and regulatory mechanisms.

Finally, as Pacific Bell points out, much of the recent growth in short duration access "messages" is attributable to applications such as credit card validation, point of sale, and data offerings that make use of 800 services. A revision in the local switching rate structure such as that suggested in the petition will result in a significant increase in access costs to IXCs that furnish 800 services and, eventually, in their customers' rates. Although the Commission may ultimately conclude that these effects may be justified in the interest of achieving a more cost-based access rate structure, it should acknowledge the economic impact of Pacific Bell's proposal and take steps to ameliorate this result.

In this regard, 800 service providers and their customers should not be expected to incur the higher access rates resulting from a restructuring of local switching while they continue to be subjected to excessive access charges under the LECs' data base access

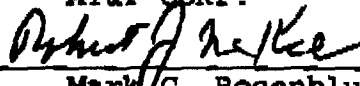
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and Service Management System ("SMS") tariffs for 800 service. These rates have been the subject of an extensive investigation by the Commission, in which the pleading cycle was completed over a year ago.<sup>6</sup> The Commission should move expeditiously to complete that investigation, and order reductions in the LECs' rate levels and refunds to affected access customers. By doing so, the Commission will assure that a call set up charge for local switching will not subject 800 services to an undue double burden of increased access rates.

Respectfully submitted,

AT&T CORP.

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<sup>6</sup> See 800 Data Base Tariffs and the 800 Service Management System Tariff, CC Docket No. 93-129, Order Designating Issues for Investigation, 8 FCC Rcd 5132 (1993).

**GROWTH IN INTERSTATE ACCESS VOLUMES**  
(Data in millions)

	INITIAL YEAR	1993	ANNUAL GROWTH RATE
<b>Ameritech (1991-93)</b>			
Minutes	35147	38614	4.82%
Messages	3806	4301	6.30%
<b>Bell Atlantic (1990-93)</b>			
Minutes	46692	52971	4.30%
Messages	4326	5712	9.71%
<b>BellSouth (1988-93)</b>			
Minutes	37423	53345	7.35%
Messages	3196	4902	8.93%
<b>NYNEX (1990-93)</b>			
Minutes	39783	44872	4.09%
Messages	4265	5160	6.56%
<b>Pacific Tel. (1991-93)</b>			
Minutes	25376	29673	8.14%
Messages	3739	4552	10.34%
<b>Southwestern (1989-93)</b>			
Minutes	24387	30593	5.83%
Messages	2340	3783	12.76%
<b>U S West (1990-93)</b>			
Minutes	32743	40068	6.96%
Messages	3036	3723	7.04%
<b>TOTAL RBOC (1991-93)</b>			
Minutes	259113	290136	5.82%
Messages	27730	32134	7.65%

**Source:** ARMIS Report 4308, TABLE S-4, updated as of 8/1/94.  
Data for years prior to those shown here was incomplete  
or considered unreliable.



CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, do hereby certify that on this 22nd day of August, 1994, a copy of the foregoing "AT&T Comments" was mailed by U.S. first class mail, postage prepaid, to the parties listed below.

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